



VILLAGE OF TEKONSHA
Calhoun County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended February 28, 2005

13-3040

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Tekonsha	County Calhoun
Audit Date February 28, 2005	Opinion Date April 21, 2005	Date Accountant Report Submitted to State: April 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLJU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

VILLAGE OF TEKONSHA
Calhoun County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

April 21, 2005

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

We have audited the accompanying financial statements of the governmental activities, business type activities and each major fund of Village of Tekonsha, Calhoun County, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Tekonsha's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of the Village of Tekonsha, Calhoun County, Michigan as of February 28, 2005, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of March 1, 2004.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2005, on our consideration of the Village of Tekonsha's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF TEKONSHA
Calhoun County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended February 28, 2005

The Management's Discussion and Analysis report of the Village of Tekonsha covers the Village's financial performance during the year ended February 28, 2005.

FINANCIAL HIGHLIGHTS

Our financial status has improved over the last year. Net assets at February 28, 2005, totaled \$428,087.31 for governmental activities and \$2,865,018.89 for business-type activities. Overall total capital assets remained approximately the same.

Overall revenues were \$431,334.39 from governmental activities and \$278,596.39 from business-type activities. Governmental activities had a \$43,447.33 increase in net assets and business-type activities had a \$108,647.59 decrease in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

All of the activities of the Village are reported as governmental activities and business-type activities. These include the General Fund, Local and Major Street Funds, Fire Fund, Building Fund, Industrial Park Fund, and Water and Sewer Funds.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended February 28, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

Governmental Funds: Some of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, Building Fund, Major and Local Street Funds, Fire Fund and the Industrial Park Fund.

Business Type Funds: The Village has Water and Sewer Funds, which include the activity of providing water and wastewater removal service to the Village residents.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

During the year, we put in approximately 500 feet of new street at a cost of \$13,000 in the Industrial Park and incurred no new debt. We paid \$7,284.02 on the 2000 Ford F350 truck, which finished off the loan and saved us 2 years worth of interest. We bought a 1987 Ford Tractor at \$8,000 and paid cash.

We continue to repay our USDA loan principal at \$24,000.00 per year, paid bi-annually. Our original 40 year loan was taken out in 1999 at \$2,110,000.00 and we have paid \$108,000.00 towards the principal. We did not do any sewer or water rate increases this year.

We continue to pay our MEDC loan, which has been reduced from \$393,000.00 to \$145,447.10. This was accomplished by applying the job credit that resulted from the creation of 28 new jobs and having our prior interest paid applied to the loan balance. No further interest will be applied to this loan, our payments are now applied solely to the principal.

Our cash position in both the governmental and business-type activities has increased by over \$46,000.00.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund pays for most of the Village's governmental services and incurred expenses of \$206,026.65. Major and Local Streets incurred expenses of \$70,261.88. The Water and Sewer Funds incurred \$138,226.73 in depreciation expense and \$249,017.25 in other expenses.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$8,587.37 in capital assets.

The Village's business-type activities invested \$0 in capital assets.

The Village's governmental activities paid \$23,465.96 of principal on long-term debt.

The Village's business-type activities paid \$24,000.00 of principal on long-term debt.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended February 28, 2005

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

We currently have several streets in need of repair. Money has been set aside to repair the streets. There is a plan to completely rebuild a Major Street in 2006. The Water Fund has sufficient net assets, but expenditures are projected to exceed revenues in the next fiscal budget year. At some point, the Village may need to take action on this condition.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Village Clerk or the Village Treasurer at 517-767-4204.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
February 28, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Petty cash	50 00	-	50 00
Cash in bank	163 210 08	80 964 51	244 174 59
Accounts receivable	27 483 00	31 245 43	58 728 43
Taxes receivable	25 768 45	-	25 768 45
Due from State of Michigan	26 778 56	-	26 778 56
Cash in bank – restricted	-	111 146 68	111 146 68
Total Current Assets	<u>243 290 09</u>	<u>223 356 62</u>	<u>466 646 71</u>
NONCURRENT ASSETS:			
Capital Assets	607 551 60	6 128 282 87	6 735 834 47
Less: Accumulated Depreciation	<u>(111 683 38)</u>	<u>(1 544 933 66)</u>	<u>(1 656 617 04)</u>
Total Noncurrent Assets	<u>495 868 22</u>	<u>4 583 349 21</u>	<u>5 079 217 43</u>
TOTAL ASSETS	<u><u>739 158 31</u></u>	<u><u>4 806 705 83</u></u>	<u><u>5 545 864 14</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	4 983 51	2 388 41	7 371 92
Internal balances	<u>62 701 47</u>	<u>(62 701 47)</u>	<u>-</u>
Total Current Liabilities	<u>67 684 98</u>	<u>(60 313 06)</u>	<u>7 371 92</u>
NONCURRENT LIABILITIES:			
Notes payable	243 386 02	-	243 386 02
Bonds payable	-	2 002 000 00	2 002 000 00
Total Noncurrent Liabilities	<u>243 386 02</u>	<u>2 002 000 00</u>	<u>2 245 386 02</u>
Total Liabilities	<u>311 071 00</u>	<u>1 941 686 94</u>	<u>2 252 757 94</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	252 482 20	2 581 349 21	2 833 831 41
Restricted for debt service	-	111 146 68	111 146 68
Unrestricted	<u>175 605 11</u>	<u>172 523 00</u>	<u>348 128 11</u>
Total Net Assets	<u>428 087 31</u>	<u>2 865 018 89</u>	<u>3 293 106 20</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>739 158 31</u></u>	<u><u>4 806 705 83</u></u>	<u><u>5 545 864 14</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended February 28, 2005

		Program Revenue	Governmental Activities
			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	14 256 96	-	(14 256 96)
General government	54 188 78	2 230 66	(51 958 12)
Public safety	157 683 11	93 420 04	(64 263 07)
Public works	148 483 30	-	(148 483 30)
Recreation and culture	6 705 84	-	(6 705 84)
Interest on long-term debt	6 569 07	-	(6 569 07)
Total Governmental Activities	387 887 06	95 650 70	(292 236 36)
Business Type Activities:			
Water and sewer	387 243 98	277 025 69	-
Total Business Type Activities	387 243 98	277 025 69	-
Total Government	775 131 04	372 676 39	(292 236 36)
General Revenues:			
Property taxes			164 153 79
State revenue sharing			156 000 44
Interest			1 841 00
Miscellaneous			13 688 46
Total General Revenues			335 683 69
Change in net assets			43 447 33
Net assets, beginning of year			384 639 98
Net Assets, End of Year			428 087 31

The accompanying notes are an integral part of these financial statements.

<u>Business Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(14 256 96)
-	(51 958 12)
-	(64 263 07)
-	(148 483 30)
-	(6 705 84)
<u>-</u>	<u>(6 569 07)</u>
<u>-</u>	<u>(292 236 36)</u>
<u>(110 218 29)</u>	<u>(110 218 29)</u>
<u>(110 218 29)</u>	<u>(110 218 29)</u>
<u>(110 218 29)</u>	<u>(402 454 65)</u>
-	164 153 79
-	156 000 44
1 570 70	3 411 70
<u>-</u>	<u>13 688 46</u>
<u>1 570 70</u>	<u>337 254 39</u>
(108 647 59)	(65 200 26)
<u>2 973 666 48</u>	<u>3 358 306 46</u>
<u>2 865 018 89</u>	<u>3 293 106 20</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

BALANCE SHEET - GOVERNMENTAL FUNDS
February 28, 2005

<u>Assets</u>	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire</u>
Petty cash	50 00	-	-	-
Cash in bank	63 150 38	41 407 15	19 884 53	37 063 98
Accounts receivable	-	-	-	25 150 00
Taxes receivable	25 768 45	-	-	-
Due from State of Michigan	12 357 00	11 184 35	3 237 21	-
Due from other funds	<u>85 859 52</u>	<u>43 013 75</u>	<u>25 447 38</u>	<u>-</u>
Total Assets	<u>187 185 35</u>	<u>95 605 25</u>	<u>48 569 12</u>	<u>62 213 98</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	4 460 31	186 33	99 76	-
Due to other funds	<u>137 809 91</u>	<u>21 672 72</u>	<u>25 329 83</u>	<u>12 508 42</u>
Total liabilities	<u>142 270 22</u>	<u>21 859 05</u>	<u>25 429 59</u>	<u>12 508 42</u>
Fund balances:				
Fund balances:				
Unreserved:				
Undesignated	<u>44 915 13</u>	<u>73 746 20</u>	<u>23 139 53</u>	<u>49 705 56</u>
Total fund balances	<u>44 915 13</u>	<u>73 746 20</u>	<u>23 139 53</u>	<u>49 705 56</u>
Total Liabilities and Fund Balances	<u>187 185 35</u>	<u>95 605 25</u>	<u>48 569 12</u>	<u>62 213 98</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	50 00
-	161 506 04
2 333 00	27 483 00
-	25 768 45
-	26 778 56
<u>1 971 45</u>	<u>156 292 10</u>
<u>4 304 45</u>	<u>397 878 15</u>

-	4 746 40
<u>3 830 55</u>	<u>201 151 43</u>
<u>3 830 55</u>	<u>205 897 83</u>

<u>473 90</u>	<u>191 980 32</u>
<u>473 90</u>	<u>191 980 32</u>
<u>4 304 45</u>	<u>397 878 15</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

February 28, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS 191 980 32

Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost 607 551 60
Accumulated depreciation (111 683 38)

Long-term debt liabilities are not due and payable in the current period and
therefore are not reported in the governmental funds:

Notes payable (243 386 02)

The internal service fund is used by management to charge the costs of certain
activities to individual funds. The assets and liabilities of the internal service
fund is included in governmental activities in the statement of net assets.

Add net assets (liabilities) of governmental activities accounted for in the
internal service fund net of capital assets and long-term debt which
are included above (16 375 21)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES 428 087 31

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire</u>
Revenues:				
Property taxes	164 153 79	-	-	-
Licenses and permits	558 63	-	-	-
State revenue sharing	68 543 00	66 941 87	20 515 57	-
Charges for services	1 672 03	-	-	91 373 79
Interest	129 66	225 57	352 75	1 133 02
Miscellaneous	13 688 46	-	-	-
Total revenues	<u>248 745 57</u>	<u>67 167 44</u>	<u>20 868 32</u>	<u>92 506 81</u>
Expenditures:				
Legislative:				
Village Council	14 256 96	-	-	-
General government:				
Elections	1 251 25	-	-	-
Accounting	13 227 27	-	-	-
Clerk	7 982 55	-	-	-
Treasurer	3 399 89	-	-	-
Building and grounds	23 827 82	-	-	-
Public safety:				
Fire protection	24 675 88	-	-	91 496 35
Police protection	37 181 44	-	-	-
Ambulance	1 500 00	-	-	-
Planning and zoning	1 118 45	-	-	-
Public works:				
Public works	34 030 32	-	-	-
Construction	-	-	13 038 50	-
Routine maintenance	-	24 162 76	18 568 04	-
Winter maintenance	-	7 236 56	4 430 60	-
Traffic services	-	2 054 69	770 73	-
Forestry	2 302 96	-	-	-
Mosquito control	1 722 34	-	-	-
Street lighting	17 049 99	-	-	-
Culture and recreation:				
Parks	6 705 84	-	-	-
Capital outlay	587 37	-	-	-
Debt service	15 206 32	-	-	14 828 71
Total expenditures	<u>206 026 65</u>	<u>33 454 01</u>	<u>36 807 87</u>	<u>106 325 06</u>
Excess (deficiency) of revenues over expenditures	<u>42 718 92</u>	<u>33 713 43</u>	<u>(15 939 55)</u>	<u>(13 818 25)</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	164 153 79
-	558 63
-	156 000 44
2 046 25	95 092 07
-	1 841 00
-	<u>13 688 46</u>
<u>2 046 25</u>	<u>431 334 39</u>

-	14 256 96
-	1 251 25
-	13 227 27
-	7 982 55
-	3 399 89
-	23 827 82

-	116 172 23
-	37 181 44
-	1 500 00
1 710 99	2 829 44

-	34 030 32
-	13 038 50
-	42 730 80
-	11 667 16
-	2 825 42
-	2 302 96
-	1 722 34
-	17 049 99

-	6 705 84
-	587 37
-	<u>30 035 03</u>

<u>1 710 99</u>	<u>384 324 58</u>
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<u>335 26</u>	<u>47 009 81</u>
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VILLAGE OF TEKONSHA
Calhoun County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire</u>
Other financing sources (uses):				
Operating transfers in	1 893 93	-	5 000 00	-
Operating transfers out	-	(6 000 00)	-	-
Total other financing sources (uses)	<u>1 893 93</u>	<u>(6 000 00)</u>	<u>5 000 00</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	44 612 85	27 713 43	(10 939 55)	(13 818 25)
Fund balances, March 1	<u>302 28</u>	<u>46 032 77</u>	<u>34 079 08</u>	<u>63 523 81</u>
Fund Balances, February 28	<u>44 915 13</u>	<u>73 746 20</u>	<u>23 139 53</u>	<u>49 705 56</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	6 893 93
<u>(893 93)</u>	<u>(6 893 93)</u>
<u>(893 93)</u>	<u>-</u>
(558 67)	47 009 81
<u>1 032 57</u>	<u>144 970 51</u>
<u>473 90</u>	<u>191 980 32</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended February 28, 2005

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 47 009 81

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(27 123 99)
Capital Outlay	8 587 37

Repayment of debt principal is an expenditure in the governmental funds, the repayment does not have an effect in the statement of activities but does reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	23 465 96
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The internal service fund is used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Add: net operating income (loss) from governmental activities accounted for in the internal service fund.	(8 491 82)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>43 447 33</u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

STATEMENT OF NET ASSETS – ALL PROPRIETARY FUNDS
February 28, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise</u>	<u>Internal Service Equipment</u>
<u>Assets</u>				
Cash in bank	37 007 53	43 956 98	80 964 51	1 704 04
Accounts receivable	9 587 11	21 658 32	31 245 43	-
Due from other funds	84 622 47	-	84 622 47	29 503 61
Cash in bank – restricted	-	111 146 68	111 146 68	-
Capital assets	3 119 367 02	3 008 915 85	6 128 282 87	150 771 22
Accumulated depreciation	<u>(737 479 05)</u>	<u>(807 454 61)</u>	<u>(1 544 933 66)</u>	<u>(91 587 93)</u>
Total Assets	<u>2 513 105 08</u>	<u>2 378 223 22</u>	<u>4 891 328 30</u>	<u>90 390 94</u>
<u>Liabilities and Net Assets</u>				
Liabilities:				
Accounts payable	2 028 34	360 07	2 388 41	237 11
Due to other funds	7 781 06	14 139 94	21 921 00	47 345 75
Note payable	-	-	-	10 902 70
Bonds payable	-	2 002 000 00	2 002 000 00	-
Total liabilities	<u>9 809 40</u>	<u>2 016 500 01</u>	<u>2 026 309 41</u>	<u>58 485 56</u>
Net assets:				
Invested in capital assets, net of related debt	2 381 887 97	199 461 24	2 581 349 21	48 280 59
Restricted	-	111 146 68	111 146 68	-
Unrestricted	<u>121 407 71</u>	<u>51 115 29</u>	<u>172 523 00</u>	<u>(16 375 21)</u>
Total net assets	<u>2 503 295 68</u>	<u>361 723 21</u>	<u>2 865 018 89</u>	<u>31 905 38</u>
Total Liabilities and Net Assets	<u>2 513 105 08</u>	<u>2 378 223 22</u>	<u>4 891 328 30</u>	<u>90 390 94</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – ALL PROPRIETARY FUNDS
Year ended February 28, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise</u>	<u>Internal Service Equipment</u>
Operating revenues:				
Charges for services	76 215 76	193 825 77	270 041 53	42 163 24
Miscellaneous	<u>2 373 08</u>	<u>4 611 08</u>	<u>6 984 16</u>	<u>800 00</u>
Total operating revenues	<u>78 588 84</u>	<u>198 436 85</u>	<u>277 025 69</u>	<u>42 963 24</u>
Less operating expenses:				
Wages	34 859 42	38 746 98	73 606 40	7 101 16
Benefits	5 400 54	5 339 02	10 739 56	735 47
Supplies	2 914 48	2 026 21	4 940 69	5 756 67
Professional services	9 589 46	15 504 06	25 093 52	400 00
Insurance	4 139 53	4 675 46	8 814 99	3 319 12
Utilities	7 196 54	19 269 30	26 465 84	6 751 81
Equipment rental	9 633 80	11 245 28	20 879 08	-
Repairs and maintenance	10 576 08	1 185 22	11 761 30	9 281 14
Miscellaneous	<u>775 56</u>	<u>485 31</u>	<u>1 260 87</u>	<u>260 00</u>
Total operating expenses before depreciation	<u>85 085 41</u>	<u>98 476 84</u>	<u>183 562 25</u>	<u>33 605 37</u>
Operating income (loss) before depreciation	(6 496 57)	99 960 01	93 463 44	9 357 87
Less: depreciation	<u>(62 360 39)</u>	<u>(75 866 34)</u>	<u>(138 226 73)</u>	<u>(16 877 36)</u>
Operating income (loss)	<u>(68 856 96)</u>	<u>24 093 67</u>	<u>(44 763 29)</u>	<u>(7 519 49)</u>
Other income and (expense):				
Interest income	799 20	771 50	1 570 70	9 49
Interest expense	<u>-</u>	<u>(65 455 00)</u>	<u>(65 455 00)</u>	<u>(981 82)</u>
Net other income and (expense)	<u>799 20</u>	<u>(64 683 50)</u>	<u>(63 884 30)</u>	<u>(972 33)</u>
Net income (loss)	(68 057 76)	(40 589 83)	(108 647 59)	(8 491 82)
Net assets, March 1	<u>2 571 353 44</u>	<u>402 313 04</u>	<u>2 973 666 48</u>	<u>40 397 20</u>
Net Assets, February 28	<u><u>2 503 295 68</u></u>	<u><u>361 723 21</u></u>	<u><u>2 865 018 89</u></u>	<u><u>31 905 38</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINING STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUNDS
Year ended February 28, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise</u>	<u>Internal Service Equipment</u>
Cash flows from operating activities:				
Cash received from customers	74 625 73	187 968 89	262 594 62	42 163 24
Cash payments to suppliers for goods and services	(50 247 36)	(59 594 50)	(109 841 86)	(26 311 88)
Cash payments to employees for services	(34 859 42)	(38 746 98)	(73 606 40)	(7 101 16)
Other operating revenues	<u>2 373 08</u>	<u>4 611 08</u>	<u>6 984 16</u>	<u>800 00</u>
Net cash provided (used) for operating activities	<u>(8 107 97)</u>	<u>94 238 49</u>	<u>86 130 52</u>	<u>9 550 20</u>
Cash flows from non-capital and related financing activities:				
Net borrowings (repayments)				
With other funds	<u>1 879 58</u>	<u>(12 628 56)</u>	<u>(10 748 98)</u>	<u>12 819 96</u>
Net cash provided (used) for non- Capital and related financing Activities	<u>1 879 58</u>	<u>(12 628 56)</u>	<u>(10 748 98)</u>	<u>12 819 96</u>
Cash flows from capital and related financing activities:				
Acquisition of fixed assets	-	-	-	(8 000 00)
Payments of principal on long-term debt	-	(24 000 00)	(24 000 00)	(12 381 30)
Payments of interest on long-term debt	-	<u>(65 455 00)</u>	<u>(65 455 00)</u>	<u>(981 82)</u>
Net cash provided (used) for capital and related financing activities	<u>-</u>	<u>(89 455 00)</u>	<u>(89 455 00)</u>	<u>(21 363 12)</u>
Cash flows from investing activities:				
Interest income	<u>799 20</u>	<u>771 50</u>	<u>1 570 70</u>	<u>9 49</u>
Net cash provided (used) for investing activities	<u>799 20</u>	<u>771 50</u>	<u>1 570 70</u>	<u>9 49</u>
Net increase (decrease) in cash and cash equivalents	(5 429 19)	(7 073 57)	(12 502 76)	1 016 53
Cash and cash equivalents, March 1	<u>42 436 72</u>	<u>162 177 23</u>	<u>204 613 95</u>	<u>687 51</u>
Cash and Cash Equivalents, February 28	<u>37 007 53</u>	<u>155 103 66</u>	<u>192 111 19</u>	<u>1 704 04</u>
Reconciliation of operating income to net cash				
Provided (used) for operating activities:				
Operating income (loss)	(68 856 96)	24 093 67	(44 763 29)	(7 519 49)
Depreciation	62 360 39	75 866 34	138 226 73	16 877 36
Increase (decrease) in assets and liabilities:				
Accounts receivable	(1 590 03)	(5 856 88)	(7 446 91)	-
Accounts payable	<u>(21 37)</u>	<u>135 36</u>	<u>113 99</u>	<u>192 33</u>
Net Cash Provided (Used) for Operating Activities	<u>(8 107 97)</u>	<u>94 238 49</u>	<u>86 130 52</u>	<u>9 550 20</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Tekonsha, Calhoun County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Village of Tekonsha. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31. The Village 2004 tax roll millage rate was 11.000 mills, and the taxable value was \$12,350,400.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	40 years
Furniture and equipment	5-7 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective March 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Village's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$495,868.22.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated two banks for the deposit of Village funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>355,321.27</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	218 586 23
Uninsured and Uncollateralized	<u>145 041 24</u>
Total Deposits	<u><u>363 627 47</u></u>

The Village of Tekonsha did not have any investments as of February 28, 2005.

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Local Street	25 447 38	General	11 188 35
	<u>25 447 38</u>	Major Street	<u>14 259 03</u>
			<u>25 447 38</u>
Major Street	<u>43 013 75</u>	General	<u>43 013 75</u>
General	85 859 52	Building	3 830 55
		Fire	12 508 42
		Major Street	1 000 00
		Sewer	6 084 14
		Local Street	9 969 64
		Water	5 121 02
	<u>85 859 52</u>	Equipment	<u>47 345 75</u>
			<u>85 859 52</u>
Building	<u>1 971 45</u>	General	<u>1 971 45</u>
Equipment	29 503 61	Major Street	6 413 69
		Local Street	15 360 19
		Sewer	5 069 69
	<u>29 503 61</u>	Water	<u>2 660 04</u>
			<u>29 503 61</u>
Water	84 622 47	Industrial Park	81 636 36
	<u>84 622 47</u>	Sewer	<u>2 986 11</u>
			<u>84 622 47</u>
Total	<u><u>270 418 18</u></u>	Total	<u><u>270 418 18</u></u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 5 – Capital Assets

Capital asset activity of the Village's Governmental and Business-Type activities for the current year was as follows:

	Balance 3/1/04	Additions	Deletions	Balance 2/28/05
<u>Governmental Activities:</u>				
Land	287 918 24	-	-	287 918 24
Buildings	180 000 00	-	-	180 000 00
Equipment	131 045 99	8 587 37	-	139 633 36
Total	598 964 23	8 587 37	-	607 551 60
Accumulated Depreciation	(84 559 39)	(27 123 99)	-	(111 683 38)
Net Governmental Capital Assets	<u>514 404 84</u>	<u>(18 536 62)</u>	<u>-</u>	<u>495 868 22</u>
<u>Business Type Activities:</u>				
Water and Sewer Systems	6 128 282 87	-	-	6 128 282 87
Accumulated Depreciation	(1 406 706 93)	(138 226 73)	-	(1 544 933 66)
Net Business Type Capital Assets	<u>4 721 575 94</u>	<u>(138 226 73)</u>	<u>-</u>	<u>4 583 349 21</u>

Note 6 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 3/1/04	Additions	Deductions	Balance 2/28/05
Note payable – 2000 pickup truck	7 284 02	-	7 284 02	-
Note payable – 2003 pickup truck	15 999 98	-	5 097 28	10 902 70
Note payable – fire equipment	2 388 92	-	2 388 92	-
Note payable – fire truck	92 907 05	-	5 870 72	87 036 33
Note payable – industrial park	160 653 31	-	15 206 32	145 446 99
Sewer bonds payable	2 026 000 00	-	24 000 00	2 002 000 00
Total	<u>2 305 233 28</u>	<u>-</u>	<u>59 847 26</u>	<u>2 245 386 02</u>

Note 7 – Note Payable – 2000 Pickup Truck

On June 27, 2000, the Village entered into a financing agreement to fund the purchase of a 2000 Ford pickup truck. The agreement required payments including interest at the rate of 7.35% per annum. As of February 28, 2005, the loan had been paid in full.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 8 – Note Payable – 2003 Pickup Truck

On February 26, 2003, the Village entered into a financing agreement to fund the purchase of a 2003 Ford pickup truck. The agreement requires payments including interest at the rate of 4.54% per annum. As of February 28, 2005, the principal balance outstanding was \$10,902.70 and it is recorded in the Equipment Fund.

Note 9 – Note Payable – Fire Equipment

On March 8, 2000, the Village entered into a financing agreement to fund the purchase of two Motorola receivers. The agreement required sixty monthly payments in the amount of \$162.18 including interest at the rate of 10.188% per annum. As of February 28, 2005, the loan had been paid in full.

Note 10 – Note Payable – Fire Truck

On August 5, 1999, the Village entered into a financing agreement to fund the purchase of a 1999 Chevrolet fire truck. The agreement requires fifteen annual payments in the amount of \$12,420.67, including interest at the rate of 7.05% per annum. The Township of Tekonsha has agreed to pay fifty percent of each payment. As of February 28, 2005, the principal balance outstanding was \$87,036.33.

Note 11 – Note Payable – Industrial Park

On May 9, 2000, the Village obtained a \$393,000.00 loan from the Michigan Economic Development Corporation to partially fund the construction of an industrial park. The agreement requires quarterly payments of principal only in the amount of \$3,729.41 beginning May 1, 2003. The Village earned credits of \$10,000.00 for each qualifying net new job created and added to the existing job base. As of February 28, 2005, the principal balance outstanding was \$145,446.99.

Note 12 – 1999 Sanitary Sewerage System Revenue Bonds

On October 26, 1999, the Village issued \$2,110,000.00 of 1999 Sanitary Sewerage System Revenue Bonds. The bonds were purchased by the United States Department of Agriculture. The bond proceeds were used to partially pay for improvements to the Village's wastewater treatment lagoons. The bonds bear interest at the rate of 3.25% per annum. The bond principal and interest are to be repaid from the revenues of the Sewer Fund. The Village is required to maintain a Bond and Interest Redemption Account with amounts sufficient to make the required principal and interest payments. The Village is also required to maintain a Bond Reserve Account with \$2,875.00 per fiscal quarter, until \$115,000.00 is accumulated. The bond proceeds are recorded as a liability in the Sewer Fund. The principal balance outstanding as of February 28, 2005, was \$2,002,000.00.

<u>Due Date</u>	<u>Principal Amount</u>
5/1/05	24 000 00
5/1/06	26 000 00
5/1/07	27 000 00
5/1/08	28 000 00
5/1/09	29 000 00
5/1/10	31 000 00
5/1/11	32 000 00
5/1/12	33 000 00
5/1/13	35 000 00
5/1/14	36 000 00

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 12 – 1999 Sanitary Sewerage System Revenue Bonds (continued)

<u>Due Date</u>	<u>Principal Amount</u>
5/1/15	38 000 00
5/1/16	40 000 00
5/1/17	42 000 00
5/1/18	43 000 00
5/1/19	46 000 00
5/1/20	47 000 00
5/1/21	50 000 00
5/1/22	52 000 00
5/1/23	54 000 00
5/1/24	57 000 00
5/1/25	59 000 00
5/1/26	62 000 00
5/1/27	65 000 00
5/1/28	67 000 00
5/1/29	71 000 00
5/1/30	74 000 00
5/1/31	77 000 00
5/1/32	81 000 00
5/1/33	84 000 00
5/1/34	88 000 00
5/1/35	92 000 00
5/1/36	96 000 00
5/1/37	101 000 00
5/1/38	105 000 00
5/1/39	110 000 00
Total	<u>2 002 000 00</u>

Note 13 – Deferred Compensation Plan

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Note 14 – Pension Plan

The Village has a defined contribution pension plan which covers all full-time employees. Pension expense for the year ended February 28, 2005, was \$3,760.00.

Note 15 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2005

Note 16 – Segment Information for Enterprise Funds

	<u>Water Fund</u>	<u>Sewer Fund</u>
Net fixed assets	2 381 887 97	2 201 461 24
Net assets	2 503 295 68	361 723 21
Operating revenues	78 588 84	198 436 85
Operating income (loss)	(68 856 96)	24 093 67
Net income (loss)	(68 057 76)	(40 589 83)
Total assets	2 513 105 08	2 378 223 22
Total liabilities	9 809 40	2 016 500 01

Note 17 – Transfers In and Transfers Out

For the fiscal year ended February 28, 2005, the Village made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	1 000 00	Major Street	1 000 00
General	893 93	Industrial Park	893 93
Local Street	<u>5 000 00</u>	Major Street	<u>5 000 00</u>
Total	<u><u>6 893 93</u></u>	Total	<u><u>6 893 93</u></u>

Note 18 – Building Permits

As of February 28, 2005, the Village had building permit revenues of \$2,046.25 and building permit expenses of \$1,710.99.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended February 28, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	154 170 00	154 170 00	164 153 79	9 983 79
Licenses and permits	40 00	40 00	558 63	518 63
State revenue sharing	70 400 00	70 400 00	68 543 00	(1 857 00)
Charges for services	1 550 00	1 550 00	1 672 03	122 03
Interest	50 00	50 00	129 66	79 66
Miscellaneous	<u>48 200 00</u>	<u>8 200 00</u>	<u>13 688 46</u>	<u>5 488 46</u>
Total revenues	<u>274 410 00</u>	<u>234 410 00</u>	<u>248 745 57</u>	<u>14 335 57</u>
Expenditures:				
Legislative:				
Village Council	10 105 00	15 005 00	14 256 96	(748 04)
General government:				
Elections	900 00	1 300 00	1 251 25	(48 75)
Accounting	13 250 00	13 250 00	13 227 27	(22 73)
Clerk	25 950 00	9 950 00	7 982 55	(1 967 45)
Treasurer	2 450 00	3 750 00	3 399 89	(350 11)
Building and grounds	27 450 00	27 450 00	23 827 82	(3 622 18)
Public safety:				
Fire protection	24 690 00	24 690 00	24 675 88	(14 12)
Police protection	40 300 00	40 300 00	37 181 44	(3 118 56)
Ambulance	3 000 00	3 000 00	1 500 00	(1 500 00)
Planning and zoning	800 00	1 150 00	1 118 45	(31 55)
Public works:				
Public works	44 650 00	35 650 00	34 030 32	(1 619 68)
Sidewalks	10 000 00	2 450 00	-	(2 450 00)
Forestry	4 100 00	7 100 00	2 302 96	(4 797 04)
Mosquito control	2 100 00	2 100 00	1 722 34	(377 66)
Street lighting	17 000 00	17 100 00	17 049 99	(50 01)
Culture and recreation:				
Parks	9 880 00	9 880 00	6 705 84	(3 174 16)
Capital outlay	1 000 00	1 000 00	587 37	(412 63)
Debt service	<u>33 000 00</u>	<u>15 500 00</u>	<u>15 206 32</u>	<u>(293 68)</u>
Total expenditures	<u>270 625 00</u>	<u>230 625 00</u>	<u>206 026 65</u>	<u>(24 598 35)</u>
Excess (deficiency) of revenues over expenditures	<u>3 785 00</u>	<u>3 785 00</u>	<u>42 718 92</u>	<u>38 933 92</u>
Other financing sources (uses):				
Operating transfers in	<u>1 000 00</u>	<u>1 000 00</u>	<u>1 893 93</u>	<u>893 93</u>
Total other financing sources (uses)	<u>1 000 00</u>	<u>1 000 00</u>	<u>1 893 93</u>	<u>893 93</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	4 785 00	4 785 00	44 612 85	39 827 85
Fund balance, March 1	-	-	302 28	302 28
Fund Balance, February 28	<u>4 785 00</u>	<u>4 785 00</u>	<u>44 915 13</u>	<u>40 130 13</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended February 28, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	57 000 00	57 000 00	66 941 87	9 941 87
Interest	<u>100 00</u>	<u>100 00</u>	<u>225 57</u>	<u>125 57</u>
Total revenues	<u>57 100 00</u>	<u>57 100 00</u>	<u>67 167 44</u>	<u>10 067 44</u>
Expenditures:				
Public works:				
Routine maintenance	31 380 00	29 580 00	24 162 76	(5 417 24)
Winter maintenance	7 830 00	8 830 00	7 236 56	(1 593 44)
Traffic services	<u>1 500 00</u>	<u>2 300 00</u>	<u>2 054 69</u>	<u>(245 31)</u>
Total expenditures	<u>40 710 00</u>	<u>40 710 00</u>	<u>33 454 01</u>	<u>(7 255 99)</u>
Excess (deficiency) of revenues over expenditures	<u>16 390 00</u>	<u>16 390 00</u>	<u>33 713 43</u>	<u>17 323 43</u>
Other financing sources (uses):				
Operating transfers out	<u>(6 000 00)</u>	<u>(6 000 00)</u>	<u>(6 000 00)</u>	<u>-</u>
Total other financing sources (uses)	<u>(6 000 00)</u>	<u>(6 000 00)</u>	<u>(6 000 00)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	10 390 00	10 390 00	27 713 43	17 323 43
Fund balance, March 1	<u>-</u>	<u>-</u>	<u>46 032 77</u>	<u>46 032 77</u>
Fund Balance, February 28	<u>10 390 00</u>	<u>10 390 00</u>	<u>73 746 20</u>	<u>63 356 20</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended February 28, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	23 800 00	14 800 00	20 515 57	5 715 57
Interest	<u>50 00</u>	<u>50 00</u>	<u>352 75</u>	<u>302 75</u>
Total revenues	<u>23 850 00</u>	<u>14 850 00</u>	<u>20 868 32</u>	<u>6 018 32</u>
Expenditures:				
Public works:				
Construction	6 000 00	13 100 00	13 038 50	(61 50)
Routine maintenance	15 200 00	19 000 00	18 568 04	(431 96)
Winter maintenance	6 500 00	6 500 00	4 430 60	(2 069 40)
Traffic services	<u>600 00</u>	<u>800 00</u>	<u>770 73</u>	<u>(29 27)</u>
Total expenditures	<u>28 300 00</u>	<u>39 400 00</u>	<u>36 807 87</u>	<u>(2 592 13)</u>
Excess (deficiency) of revenues over expenditures	<u>(4 450 00)</u>	<u>(24 550 00)</u>	<u>(15 939 55)</u>	<u>8 610 45</u>
Other financing sources (uses):				
Operating transfers in	<u>5 000 00</u>	<u>5 000 00</u>	<u>5 000 00</u>	<u>-</u>
Total other financing sources (uses)	<u>5 000 00</u>	<u>5 000 00</u>	<u>5 000 00</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	550 00	(19 550 00)	(10 939 55)	8 610 45
Fund balance, March 1	<u>-</u>	<u>20 100 00</u>	<u>34 079 08</u>	<u>13 979 08</u>
Fund Balance, February 28	<u>550 00</u>	<u>550 00</u>	<u>23 139 53</u>	<u>22 589 53</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE FUND
Year ended February 28, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Charges for services	93 080 00	109 580 00	91 373 79	(18 206 21)
Interest	<u>250 00</u>	<u>250 00</u>	<u>1 133 02</u>	<u>883 02</u>
Total revenues	<u>93 330 00</u>	<u>109 830 00</u>	<u>92 506 81</u>	<u>(17 323 19)</u>
Expenditures:				
Public safety:				
Fire protection	90 600 00	92 100 00	91 496 35	(603 65)
Debt service	<u>-</u>	<u>15 000 00</u>	<u>14 828 71</u>	<u>(171 29)</u>
Total expenditures	<u>90 600 00</u>	<u>107 100 00</u>	<u>106 325 06</u>	<u>(774 94)</u>
Excess (deficiency) of revenues over expenditures	2 730 00	2 730 00	(13 818 25)	(16 548 25)
Fund balance, March 1	<u>-</u>	<u>-</u>	<u>63 523 81</u>	<u>63 523 81</u>
Fund Balance, February 28	<u><u>2 730 00</u></u>	<u><u>2 730 00</u></u>	<u><u>49 705 56</u></u>	<u><u>46 975 56</u></u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
February 28, 2005

<u>Assets</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire</u>	<u>Building</u>
Cash in bank	41 407 15	19 884 53	37 063 98	-
Accounts receivable	-	-	25 150 00	2 333 00
Due from State of Michigan	11 184 35	3 237 21	-	-
Due from other funds	<u>43 013 75</u>	<u>25 447 38</u>	<u>-</u>	<u>1 971 45</u>
Total Assets	<u>95 605 25</u>	<u>48 569 12</u>	<u>62 213 98</u>	<u>4 304 45</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	186 33	99 76	-	-
Due to other funds	<u>21 672 72</u>	<u>25 329 83</u>	<u>12 508 42</u>	<u>3 830 55</u>
Total liabilities	<u>21 859 05</u>	<u>25 429 59</u>	<u>12 508 42</u>	<u>3 830 55</u>
Fund balances:				
Fund balances:				
Unreserved:				
Undesignated	<u>73 746 20</u>	<u>23 139 53</u>	<u>49 705 56</u>	<u>473 90</u>
Total fund balances	<u>73 746 20</u>	<u>23 139 53</u>	<u>49 705 56</u>	<u>473 90</u>
Total Liabilities and Fund Balances	<u>95 605 25</u>	<u>48 569 12</u>	<u>62 213 98</u>	<u>4 304 45</u>

<u>Industrial Park</u>	<u>Total</u>
-	98 355 66
-	27 483 00
-	14 421 56
<u>-</u>	<u>70 432 58</u>
<u>-</u>	<u>210 692 80</u>
-	286 09
<u>-</u>	<u>63 341 52</u>
<u>-</u>	<u>63 627 61</u>
-	147 065 19
<u>-</u>	<u>147 065 19</u>
<u>-</u>	<u>210 692 80</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL SPECIAL REVENUE FUNDS
Year ended February 28, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire</u>	<u>Building</u>
Revenues:				
State revenue sharing	66 941 87	20 515 57	-	-
Charges for services	-	-	91 373 79	2 046 25
Interest	<u>225 57</u>	<u>352 75</u>	<u>1 133 02</u>	<u>-</u>
Total revenues	<u>67 167 44</u>	<u>20 868 32</u>	<u>92 506 81</u>	<u>2 046 25</u>
Expenditures:				
Public safety:				
Fire protection	-	-	91 496 35	-
Planning and zoning	-	-	-	1 710 99
Public works:				
Construction	-	13 038 50	-	-
Routine maintenance	24 162 76	18 568 04	-	-
Winter maintenance	7 236 56	4 430 60	-	-
Traffic services	2 054 69	770 73	-	-
Debt service	<u>-</u>	<u>-</u>	<u>14 828 71</u>	<u>-</u>
Total expenditures	<u>33 454 01</u>	<u>36 807 87</u>	<u>106 325 06</u>	<u>1 710 99</u>
Excess (deficiency) of revenues over expenditures	<u>33 713 43</u>	<u>(15 939 55)</u>	<u>(13 818 25)</u>	<u>335 26</u>
Other financing sources (uses):				
Operating transfers in	-	5 000 00	-	-
Operating transfers out	<u>(6 000 00)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(6 000 00)</u>	<u>5 000 00</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	27 713 43	(10 939 55)	(13 818 25)	335 26
Fund balances, March 1	<u>46 032 77</u>	<u>34 079 08</u>	<u>63 523 81</u>	<u>138 64</u>
Fund Balances, February 28	<u><u>73 746 20</u></u>	<u><u>23 139 53</u></u>	<u><u>49 705 56</u></u>	<u><u>473 90</u></u>

<u>Industrial Park</u>	<u>Total</u>
-	87 457 44
-	93 420 04
-	<u>1 711 34</u>
-	<u>182 588 82</u>
-	91 496 35
-	1 710 99
-	13 038 50
-	42 730 80
-	11 667 16
-	2 825 42
-	<u>14 828 71</u>
-	<u>178 297 93</u>
-	<u>4 290 89</u>
-	5 000 00
<u>(893 93)</u>	<u>(6 893 93)</u>
<u>(893 93)</u>	<u>(1 893 93)</u>
(893 93)	2 396 96
<u>893 93</u>	<u>144 668 23</u>
<u>-</u>	<u>147 065 19</u>

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BAY CITY, MICHIGAN 48707

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 21, 2005

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

We have audited the financial statements of the Village of Tekonsha, Calhoun County, Michigan, as of and for the year ended February 28, 2005, and have issued our report thereon dated April 21, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Village of Tekonsha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Village of Tekonsha's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our study and evaluation disclosed the following condition that we believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present plan of organization of the Village there is an inadequate control over cash transactions caused by an inadequate segregation of duties which is due to the limited number of office personnel employed. Such study and evaluation disclosed no conditions that we believe to be material weaknesses for which corrective action by management is practicable in the circumstances.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

April 21, 2005

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

We have audited the financial statements of the Village of Tekonsha for the year ended February 28, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Tekonsha in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended February 28, 2005. The implementation of this pronouncement for the Village of Tekonsha began with the year ended February 28, 2005. The daily operations and recording transactions did not change significantly, however, the Village is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated February 28, 2005.

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants